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SUBJECT: GLOBAL FDI MOVEMENTS: MYTHS AND FACTS IN TURKEY

1. (U) Summary: Speakers at a March 24 conference on foreign investment in Turkey evinced optimism about Turkey's overall economic progress but agreed the country needs to develop a strategy to attract significant FDI. Noting that the country lags especially in the area of "green field" investment, they pressed for continuation and intensification of Turkey's structural reforms. End Summary.

2. (U) The one-day conference was jointly organized by Turkey's Foreign Investment Association (YASED) and Koc University's Economic Research Institute. Among those participating were YASED President Saban Erdikler, OECD Advisor (and FDI expert) Declan Murphy, Koc Group CEO Bulend Ozaydinli, Turk Telecom CEO Paul Doany, and former Treasury Undersecretary (and Koc Research Institute Head) Faiz Oztrak.

TURKEY'S FDI PERFORMANCE - A NEGATIVE REVIEW

3. (U) Murphy and other speakers stressed that while Turkey increased its FDI levels to \$9 billion in 2005, it is still not a major competitor for global FDI funds. Murphy pointed out that Romania, a country with less than a third Turkey's population, attracts \$10-20 billion annually, while Ireland currently attracts between \$20-25 billion. Panelists noted that Turkey is even further behind in attracting "greenfield" investment, as most of the inflow has financed mergers and acquisitions, rather than "greenfield" projects. (Turkey has held steady at around 65 such projects per year, less than half the number Romania received.) Panelists attributed this to the fact that Turkey is neither a "low-cost or a low-wage" country. They dismissed suggestions that there is a cultural affinity between Western capital and Eastern Europe, pointing instead to the fact these countries had articulated FDI strategies, improved market environments, and had very proactive approaches. Turkey, on the other hand, has not made similar progress.

BUT A POSITIVE OUTLOOK

4. (U) Panelists agreed that though Turkey has not lived up to its FDI potential yet, the outlook remains positive: with the fourth fastest growing economy in the world, a place among the top five capital markets in the world, an improving credit rating, low inflation, a strong infrastructure, a young, tech-savvy population, and the EU anchor, Turkey should do better. Bulend Ozaydinli, CEO of Koc Holding, Turkey's largest holding group, with interests in industry, banking, and the energy sector, offered an extremely upbeat vision of Turkey's future in FDI markets. Turkey's positives, he argued, will allow Turkey's economy to face shocks and setbacks more quickly and easily, thereby creating the stability that is so critical to investors.

SPECIFIC CONCERNS

5. (U) While optimistic for the overall economy, participants were more concerned about the prospects of particular sectors. They pointed particularly to problems in the textile industry, which is facing serious hardships as it tries to compete with Chinese and Indian production. They lauded the progress of the automotive industry, but noted that it needs to contribute more value-added production, rather than simply functioning as a final assembly point for foreign-made components. This is critical, Ankara University Economic Department Chair Ercan Uygur said, if the country is to reduce its high unemployment rate. Turkey must also address a declining savings rate, and reduce the size of its unregistered economy.

WHERE SHOULD TURKEY GO FROM HERE?

6. (U) Speakers and conference participants pressed for elaboration of a coherent national FDI strategy. Among their suggestions were the following:

- Continued privatization reforms;

- Development of a clear and predictable regulatory regime and proven legal system that can be counted on to reach fair conclusions if a foreign company is taken to court;
- Targeting of priority sectors for Greenfield investments, such as mining, telecom, and financial industries;
- Working with existing capacity and infrastructure; for example, expanding the existing treasury to meet growing needs;
- Pursuing partnerships with the private sector;
- Focusing on long-term commitments through quality investors, as opposed to "buy-low, sell-high investors";
- Continuing to build a more effective tax system;
- Focusing on tech-focused investments;
- Creating numerical, verifiable FDI objectives
- Developping an FDI promotion agency to act in the international arena;
- Taking advantage of EU accession talks to improve the FDI environment.
- Envisioning Turkey as a regional FDI center as both a contributor and recipient of FDI.

Comment

17. (U) The Koc/YASED conference provided an opportunity for stakeholders both to review worldwide FDI trends and to take a close look at Turkey's performance. Although that performance has not been strong to date, participants are enthusiastic about Turkey's potential. Their prescriptions largely track with measures that constitute the essential building blocks of Turkey's ongoing IMF program, and that we have encouraged Turkish policy-makers to not lose time in implementing.

JONES